

AUDITED FINANCIAL STATEMENTS

FEBRUARY 29, 2004

Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

	nship		Elk Rapids	District Library		Antr		
Audit Date 2/29/04	Opinio 8/1 (
accordance with th	e Statements o	f the Govern	mental Accou	overnment and rendere nting Standards Board n <i>t in Michigan</i> by the Mi	(GASB) and	the <i>Uniform</i>	Reporting	
We affirm that:								
1. We have comp	ied with the <i>Bull</i>	etin for the Au	idits of Local U	nits of Government in N	<i>lichigan</i> as revi	sed.		
2. We are certified	l public accounta	ınts registered	d to practice in	Michigan.				
We further affirm the	•	" responses h	ave been disc	osed in the financial sta	tements, includ	ling the notes	, or in the r	
You must check the	applicable box f	or each item b	elow.					
☐ Yes 🗸 No	1. Certain con	nponent units/	funds/agencie	s of the local unit are ex	cluded from the	e financial sta	atements.	
Yes 🗸 No	2. There are a 275 of 1980		deficits in one	or more of this unit's u	nreserved func	d balances/re	tained earr	
Yes 🗸 No	3. There are amended).	instances of	non-complianc	e with the Uniform Acc	counting and B	Budgeting Act	: (P.A. 2 o	
Yes ✓ No				ions of either an order the Emergency Municip		the Municipa	al Finance	
Yes V No		The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).						
Yes 🗸 No	6. The local ur	nit has been d	elinquent in dis	stributing tax revenues t	hat were collec	ted for anothe	er taxing u	
☐Yes 🗸 No	7. pension be	nefits (normal	costs) in the	utional requirement (Ar current year. If the plan equirement, no contribut	is more than	100% funded	and the o	
☐ Yes 🗹 No	8. The local u (MCL 129.2		it cards and h	nas not adopted an ap	plicable policy	as required l	by P.A. 26	
Yes ✓ No	9. The local ur	nit has not add	opted an invest	ment policy as required	by P.A. 196 of	1997 (MCL 1	29.95).	
We have enclosed	the following:				Enclosed	To Be Forward		
The letter of comme	ents and recomm	endations.			✓			
Reports on individu	al federal financi	al assistance	programs (prog	gram audits)				
Single Audit Report	s (ASLGU).							
Certified Public Accounts Kalcher, Vande		P.C.						
Street Address 928 South Garfi	eld Avenue, S	uite 3		City Traverse C	ity	State MI	ZIP 49686	
Accountant Signature	1	MERCEC	1-			Date 8/10/04		

ELK RAPIDS DISTRICT LIBRARY

TABLE OF CONTENTS

	Page
Auditing Procedures Report (P.A. 2 of 1968)	1
Independent Auditor's Report	2
General Purpose Financial Statements	
Combined Balance Sheet - All Fund Types and Account Groups	3
Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Types	4 - 5
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	6 - 7
Notes to Financial Statements	8 - 13
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements	
Performed in Accordance with Governmental Auditing Standards	14 - 15

KALCHER
VANDERWAL
TORREY, P.C.

TRAVERSE CITY
MANISTEE

DALE L. VANDERWAL, C.P.A. LEE W. TORREY, C.P.A. JOHN A. SPRATTO, C.P.A. DAVID L. RICHARDS, C.P.A., A.B.V.

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel: LEONARD R. KALCHER, C.P.A.

INDEPENDENT AUDITOR'S REPORT

August 10, 2004

Board of Directors Elk Rapids District Library Elk Rapids, Michigan

We have audited the accompanying general purpose financial statements of Elk Rapids District Library, as of and for the year ended February 29, 2004. These general purpose financial statements are the responsibility of Elk Rapids District Library's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Elk Rapids District Library, as of February 29, 2004 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2004, on our consideration of Elk Rapids District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

CHOPER, VAUSSOUR & TONKY. P.C.

Certified Public Accountants

ELK RAPIDS DISTRICT LIBRARY COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNT GROUPS FEBRUARY 29, 2004

	G	overnmenta	l Fun	d Types	Account Groups				
	General Fund		Imp	uilding rovement Fund		General Fixed Assets	Totals (Memorandum Only)		
<u>Assets</u>									
Cash and cash equivalents Due from Building Improvement Fund	\$	129,647 4,200	\$	30,280	\$	-	\$	159,927 4,200 1,041	
Prepaid expenses		1,041		_		781,237		781,237	
Property and equipment Total Assets	\$	134,888	\$	30,280	\$	781,237	\$	946,405	
Liabilities and Equity Liabilities Accounts payable	\$	486	\$	-	\$	-	\$	486	
Due to General Fund				4,200				4,200	
Employment taxes payable		2,121		-				2,121	
Total Liabilities	\$	2,607	\$	4,200	\$	_	\$	6,807	
Fund Equity Investment in general fixed assets	\$	-	\$	-	\$	781,237	\$	781,237	
Fund Balance				26,080		_		26,080	
Reserved for public improvements		5,000		20,000		_ _		5,000	
Reserved for Board purposes Unreserved		127,281		_		_		127,281	
Total fund equity	\$	132,281	\$	26,080	\$	781,237	\$	939,598	
Total Liabilities and Fund Equity	\$	134,888	\$	30,280	\$	781,237	\$	946,405	

ELK RAPIDS DISTRICT LIBRARY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL GOVERNMENT FUND TYPES

FOR THE YEAR ENDED FEBRUARY 29, 2004 (Page 1 of 2)

Revenues	Gen	eral Fund	Impro	lding ovement und	Totals (Memos Only)		
Intergovernmental							
- Elk Rapids Township	\$	66,796	\$	-	\$	66,796	
- Milton Township		85,670		-		85,670	
- State Aid		-		-		-	
- Penal Fines		17,458		-		17,458	
Contract Fees - Torch Lake Township		2,600		-		2,600	
Book Fines		997		-		997	
Replacement card		66		-		66	
Copier Fees		211		-		211	
Interest - bank account		1,272		182		1,454	
ILL Fees		131		-		131	
Donations		13,466		320		13,786	
Note cards		62		-		62	
Non-resident Fees		270		-		270	
Grant Income		-		-		-	
Transfer from Fund Equity		_		-		-	
Miscellaneous Income		1,528		-		1,528	
Total Revenues	\$	190,527	\$	502	\$	191,029	
Ti distance							
Expenditures							
Supplies	\$	3,274	\$	_	\$	3,274	
Library	Ψ	1,110	Ψ	_	•	1,110	
Office		683		_		683	
Cleaning		216		_		216	
Other		17,212		_		17,212	
Books and Audio Tapes		5,205		_		5,205	
Rental Books and Tapes		2,755		_		2,755	
Periodicals		2,733				2,,,,,	
Insurance:		3,260		_		3,260	
General		100		_		100	
Workers Comp		100		_		100	
Utilities:		412		_		412	
Water		2,112		-		2,112	
Natural Gas		1,473		_		1,473	
Telephone		200		-		200	
Internet Service		200		_		200	

ELK RAPIDS DISTRICT LIBRARY COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED FEBRUARY 29, 2004 (Page 2 0f 2)

				Building		
	_		Imp	rovements		Totals
Expenditures (continued)	Gei	neral Fund		Fund	(M	emo Only)
Accounting and Legal		1,590		_		1,590
Contracts/MMLL		2,916		_		2,916
Technical Support		2,860		_		2,860
Postage		1,166		-		1,166
Printing:		-,				-,
Publicity		125		-		125
Other		212		-		212
Programs:						
Summer Reading		882		_		882
Volunteers		264		_		264
Board of Trustees		294		_		294
Mileage		80		_		80
Maintenance:						
Building Facilities		4,768		_		4,768
Technology		-		-		-
Other		_		_		_
Capital Outlay:						
Technology		1,777		_		1,777
Furniture		5,000		_		5,000
Equipment Lease Expense		851		_		851
Education		152		_		152
Payroll:						102
FICA		4,817		_		4,817
Medicare		1,127		_		1,127
Salaries and Wages		77,700		-		77,700
Health Insurance		5,373		_		5,373
Miscellaneous		1,235		_		1,235
Contingency		-,200		_		1,233
Building Improvements:						
Improvements		-		13,617		13,617
Architectural Fees		_		-		,0
Bank Charges		-		_		-
Total Expenditures	\$	151,201	\$	13,617	\$	164,818
Excess (Deficiency) Revenue						
Over Expenditures	\$	39,326	\$	(13,115)	\$	26,211
Fund Balance - Beginning of Period		92,955		39,195		132,150
Fund Balance - End of Period	\$	132,281	\$	26,080	\$	158,361
				· · · · · · · · · · · · · · · · · · ·		

ELK RAPIDS DISTRICT LIBRARY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED FEBRUARY 29, 2004 (Page 1 of 2)

n		Budget		Actual	(Unfa	riance worable)
Revenues		budget		Actual	Favorable	
Intergovernmental	\$	66,796	\$	66,796	\$	
- Elk Rapids Township	Φ	•	Ф	85,670	Φ	1
- Milton Township		85,669		83,670		1
- State Aid		- 17,457		17,458		-
- Penal Fines		-		-		1
Contract Fees - Torch Lake Township		2,600		2,600		(2)
Book Fines		1,000		997		(3)
Replacement card		66		66		-
Copier Fees		210		211		1
Interest - bank account		1,360		1,272		(88)
ILL Fees		130		131		1
Donations		13,441		13,466		25
Note cards		62		62		-
Non-resident Fees		270		270		-
Grant Income		-		-		-
Transfer from Fund Equity		-		-		-
Miscellaneous Income		1,746		1,528		(218)
Total Revenues	\$	190,807	\$	190,527	\$	(280)
<u>Expenditures</u>						
Supplies						
Library	\$	3,350	\$	3,274	\$	76
Office		1,300		1,110		190
Cleaning		750		683		67
Other		250		216		34
Books and Audio Tapes		18,000		17,212		788
Rental Books and Tapes		5,445		5,205		240
Periodicals		2,800		2,755		45
Insurance:		•		,		
General		3,500		3,260		240
Workers Comp		548		100		448
Utilities:						
Water		500		412		88
Natural Gas		3,000		2,112		888
Telephone		1,800		1,473		327
Internet Service		200		200		J
interliet dei viec		200		200		-

ELK RAPIDS DISTRICT LIBRARY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED FEBRUARY 29, 2004 (Page 2 0f 2)

Variance

Expenditures (continued)	 Budget	-	Actual	(Ur	ariance ifavorable) avorable
Accounting and Legal	1,700		1,590		110
Contracts/MMLL	2,916		2,916		-
Technical Support	2,860		2,860		-
Postage	1,200		1,166		34
Printing:					
Publicity	125		125		-
Other	212		212		-
Programs:					
Summer Reading	900		882		18
Volunteers	265		264		1
Board of Trustees	294		294		_
Mileage	80		80		-
Maintenance:					
Building Facilities	8,000		4,768		3,232
Technology	-		-		-
Other	-		-		_
Capital Outlay:					
Technology	1,777		1,777		-
Furniture	5,000		5,000		-
Equipment Lease Expense	1,200		851		349
Education	152		152		-
Payroll:					
FICA	4,900		4,817		83
Medicare	1,150		1,127		23
Salaries and Wages	77,700		77,700		_
Health Insurance	5,410		5,373		37
Miscellaneous	1,300		1,235		65
Contingency	32,223		-		32,223
Building Improvements:					,
Improvements	_		-		-
Architectural Fees	-		_		-
Bank Charges	_		-		_
Total Expenditures	\$ 190,807	\$	151,201	\$	39,606
Excess (Deficiency) Revenue					
Over Expenditures	\$ -	\$	39,326	\$	39,326
Fund Balance - Beginning of Period	 92,955		92,955		
Fund Balance - End of Period	\$ 92,955	\$	132,281	\$	39,326

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Elk Rapids District Library (the Library) was organized during 1939. The Library serves primarily the residents of the Village of Elk Rapids, Elk Rapids Township, Milton Township and Torch Lake Township, Michigan. The Library operates under an appointed Board of Directors consisting of eight members.

The criteria established for determining the various governmental organizations to be included in the Library's financial statements include oversight responsibility, scope of public service and special financing relationships. Accordingly, the financial statements of the Library contain all Library funds that are controlled by or dependent upon the Library's executive branch.

Basis of Presentation

The financial activities of Elk Rapids District Library are recorded in separate funds and account groups, categorized and described as follows:

GOVERNMENTAL FUND TYPES

<u>General Fund</u> - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes and other intergovernmental revenues.

Building Improvements Fund - This fund is used to account for major additions to the current physical plant and other major acquisitions. Revenues are derived from general donations specifically earmarked for building improvements.

ACCOUNT GROUPS

<u>General Fixed Assets Account Group</u> - This account group presents the fixed assets of the local unit utilized in its general operations.

<u>Measurement Focus</u> - The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. Governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a summary of "measurable and available spending resources" during a period.

Note 1 - Summary of Significant Accounting Policies (continued)

An account group is not a "fund". It is concerned only with the measurement of financial position. It is not involved with measurements of results of operations.

Basis of Accounting

All governmental funds utilize the modified accrual basis of accounting as described by Governmental Accounting Standards Board Statement No. 1. Under this method, revenues are recognized when received in cash except for those susceptible to accrual, which are recorded as receivable when measurable and as revenue when available to finance current operations. The Library considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Significant revenues susceptible to accrual include property taxes, expenditure reimbursement type grants, certain intergovernmental revenues and operating transfers. Expenditures are recorded when the liability is incurred.

Budgets and Budget Accounting

The Library adopts a budget for its governmental type fund as required by Public Act 621 of the State of Michigan. The Library follows these procedures in establishing the budget as reflected in the financial statements:

- 1. In November or December, the Library Board prepares a preliminary budget for the ensuing fiscal year.
- 2. During February, the budget is legally enacted through passage of a resolution. Amendments to the budget can be made during the fiscal year, if necessary, by a simple majority vote of the Library Board.
- 3. The budget is adopted on a basis consistent with the modified accrual method of accounting.

The Library adopted its budget for the year ended February 29, 2004 at its February, 2003 meeting and amended it on December 11, 2003 and again on February 12, 2004. A statement of revenues and expenditures compared to budget for the year is included on pages 7 - 8.

Encumbrance System

The Library does not use an encumbrance system.

Cash and Cash Equivalents

For the purposes of the balance sheet classification, the Library considers all money market accounts and certificates of deposits with maturities of three months or less when purchased to be cash equivalents.

Note 1 - Summary of Significant Accounting Policies (continued)

Cash and Deposits

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

Category 1 Deposits which are insured or collateralized with securities held by the Library or by its agent in the Library's name.

Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Library's name.

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, \$ 20,229 of the Library's cash deposits are classified as Category 3, and the remainder is classified as Category 1.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

Note 2 - Stewardship, Compliance and Accountability

All Funds have positive fund balances at February 29, 2004.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. During the year ended February 29, 2004, the Library did not have any occurrences of budget violations.

The 2004-2005 budget was presented and approved on February 12, 2004.

Note 3 - Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act 196, Public Acts of 1998 (effective December 30, 1998), states the Library, by resolution, may authorize the Chief Fiscal Officer to invest surplus funds as follows:

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, deposit accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the Act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States Government or Federal Agency obligation repurchase agreements
- e. In bankers' acceptances of United States banks.
- f. Obligations of the State of Michigan or any or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686.54 Stat. 739, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the urban cooperation act of 1967, 1967 PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.11 to 129.118.
- j. Investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Certain other restrictions also apply including a requirement for the Board of Directors to formally adopt an Investment Policy which includes specified matters.

Note 4 - Summary of Fixed Assets

General Fixed Assets acquired for general Library purposes were recorded at time of purchase as expenditures and have been capitalized in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles.

During the year, in preparation for the upcoming GASB 34 requirements, the Library took a physical inventory of all fixed assets and researched date of acquisition and cost information. The totals for each category were different than historical amounts and those differences are summarized below in the "Prior Period Adjustment" column. This adjustment would also reduce the February 28, 2003 fund balance for the fixed asset account group.

	B	eginning	A (Prior Period djustment		Adjusted Seginning	A	dditions	De	letions	Ending
Shelving	\$	5,818	\$	55,432	\$	61,250	\$	16,151	\$	_	\$ 77,401
Computer Equipment		49,890		(34,313)		15,577		1,777		_	17,354
Equipment		35,736		(34,757)		979		-		_	979
Furniture		23,010		9,501		32,511		_		-	32,511
Art Work		25,000		(24,200)		800		-		-	800
Miscellaneous		95		(95)		-		_		_	-
Leasehold Improvements		400,739		_		400,739		2,466		_	403,205
	\$	540,288	\$	(28,432)	\$	511,856	\$	20,394	\$	_	\$ 532,250
Books		223,832	-	-		223,832		25,171		(16)	248,987
	\$	764,120	\$	(28,432)	_\$	735,688	\$	45,565	\$	(16)	\$ 781,237

Note 5 - Commitments

The Library has entered into a lease with the Village of Elk Rapids on July 20, 1998 for the use of premises located at 300 Noble, Elk Rapids, Michigan (commonly known as the "Island House"). The lease calls for annual lease payments of one dollar (\$ 1.00) and other good and valuable consideration. The term of the lease is for forty (40) years and does not provide for automatic renewal or extension of the lease; but the parties may, on a voluntary basis, agree to extend or renew the lease upon such terms and provisions as shall be negotiated in the future.

The Library has entered into a non-cancelable operating lease for the use of a Xerox copier/printer/scanner. The lease began on August 12, 2002 and requires sixty (60) monthly payments of \$59.16. The lease expense for the fiscal year ended February 29, 2004 was \$921. Remaining lease obligations are as follows:

2004-05	\$ 710
2005-06	710
2006-07	710
2007-08	396

Note 5 - Commitments (continued)

The Library has entered into a contract for the remodeling of the lower level of the Island House which currently is used by the Library as a workroom and storage for used books and supplies. The contract calls for the creation of a conference room, restroom facilities, cabinetry and related mechanical improvements. The total contract amount is \$16,590, of which \$2,466 was paid as of the balance sheet date. With various change orders and adjustments, the project is complete and the remaining balance of \$17,234 has been paid as of the date of this report.

Note 6 - Risk Management

The Library carries coverage for property damage, liability, wrongful acts and crime claims. Also, the Library has purchased from a commercial carrier worker's compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 - Fund Balance Designations

The Library has established a reserve for future unemployment costs in that they are a reimbursing employer with the Michigan Unemployment Security Commission. The District Library only pays after someone has filed a claim for unemployment compensation. No additional accrual was made during the fiscal year as the current reserve of \$5,000 appears to be adequate to handle potential claims.

CERTIFIED PUBLIC ACCOUNTANTS

TRAVERSE CITY MANISTEE

DALE L. VANDERWAL, C.P.A. LEE W. TORREY, C.P.A. JOHN A. SPRATTO, C.P.A. DAVID L. RICHARDS, C.P.A., A.B.V.

Of Counsel: LEONARD R. KALCHER, C.P.A.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

August 10, 2004

Board of Trustees Elk Rapids District Library Elk Rapids, Michigan 49686

We have audited the general purpose financial statements of Elk Rapids District Library, as of and for the year ended February 29, 2004, and have issued our report thereon dated August 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Elk Rapids District Library's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elk Rapids District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a

Board of Trustees Elk Rapids Library August 10, 2004 Page (2)

relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Directors and management of the Library and is not intended to be and should not be used by anyone other than these specified parties.

KNOWER, VANDEOUR & TODARY, AC.

Certified Public Accountants

CERTIFIED PUBLIC ACCOUNTANTS

TRAVERSE CITY MANISTEE

DALE L. VANDERWAL, C.P.A. LEE W. TORREY, C.P.A. JOHN A. SPRATTO, C.P.A. DAVID L. RICHARDS, C.P.A., A.B.V.

Of Counsel: LEONARD R. KALCHER, C.P.A.

August 10, 2004

Board of Directors Elk Rapids District Library Elk Rapids, Michigan

In planning and performing our audit of the general purpose financial statements of Elk Rapids District Library for the year ended February 29, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control. Although we did not find any material weaknesses to report, we do have some suggestions for improving your financial accounting system in future years.

Finding

Your system for cataloging your book and tape collection has been in use now for about three years and appears to be working very effectively for your staff. However, there still seems to be some question as to dollar amounts on the additions and deletions schedule of this software.

Recommendation

It's imperative that the Library continue to monitor the NuGen Software as it relates to its' accounting function. This should be an area of concern for the Library and continual review should be a top priority for the Library staff.

We want to thank the Library staff and Board for all their assistance during the audit. We would be happy to help, in any way, with the implementation of the aforementioned recommendations.

Khatha Madeur & Tobby Ac.

Certified Public Accountants